Week in Review

Equity Markets:

The S&P officially entered bear market territory, down over 20% from the January 3rd intraday high. The swift move down came on the heels of a 75-basis point hike by the Fed. The markets appear to be signaling a "hard" landing by the Fed. Last week marked the 10th negative week out of the past 11. After years of growth leadership, this downturn is being led by those stocks that spent the better part of five years outperforming the broader market. Growth stocks are down ~30% while value stocks have held up much better; only down ~15%.

Fixed Income Markets:

The FOMC raised the Fed Fund's rate by 0.75% at their meeting last week. This is the largest hike since 1994, according to FactSet. A higher than anticipated CPI reading led many to believe the Fed needed to take an even more aggressive stance to combat inflation. Fed Chairman Jerome Powell reiterated the Fed's strong stance in fighting inflation. From the start of the new rate hike cycle, many expected 0.50% hikes through the summer. Chairman Powell indicated there is a strong consideration for another 0.75% hike at the next FOMC meeting in late July.

Powell still believes the Fed can raise rates without pouring cold water on the economy. The Fed's new data-dependent policy will allow them to pivot policy action more quickly, according to Chairman Powell.

The yield curve flattened, and the 2/10s inverted briefly late in the week. The 10-year yield ended the week at 3.23%; while the 2-year yield ended the week at 3.17%.

Economic:

Retail sales missed expectations in May and have been on a steady month-over-month decline since January. Regional manufacturing numbers also came in lower than expected. The New York and Philadelphia PMI saw a contraction in manufacturing for May. The housing market also continued to cool. Homebuilder sentiment is the lowest seen in two years. Housing starts and building permits also fell in May. Economic data continues to come in softer than anticipated. Inflationary pressures appear to have made their way down to the consumer.

Looking Ahead

Equity Markets:

The S&P is down ~24% from the early January high of 4818. This drawdown has encompassed a majority of the market, while Large-Cap Growth has taken the more severe hit. The market is continuing to adapt to the highest rate environment seen since just after the Great Recession. Over the short run, we anticipate volatility to be elevated. Weakening economic data and earnings expectations are providing a backdrop for a bumpy Q3.

As long-term investors, we are less concerned with the short-term outlook, but are focused on investments that provide long-term opportunities. Where the markets currently sit, we believe opportunities are starting to arise. The stock market is a discounting mechanism, and it appears the market is pricing in a meaningful economic slowdown. If this occurs, the market has historically led the reversal back into an economic expansion.

If history is any sign, the market is likely closer to the bottom than what most market participants believe. We believe that bear markets and high volatility are the most imperative of times to stay disciplined and not let the headline noise make you lose sight of your long-term plan and goals.

Fixed Income Markets:

The 10-year briefly jumped over 3.4% last week. We still have a strong belief the current rate cycle will be in the 3.25-3.5% range. There could be a short period above the range, but we believe investors will push the yield back below 3.5% in short order. In the current environment, we believe fixed income investors are better buyers than sellers. The 10-year yield hit its highest level in over a decade but, more importantly, we believe the current level of rates will provide greater negative correlation to the stock market than we have seen in some time.

Economic:

Mortgage rates have climbed to levels unseen in over a decade and next week will be in focus to see the impact rates have had on potential homebuyers. Existing and new home sales numbers will be released this week. S&P Global will release its June preliminary manufacturing and services PMI numbers. The June preliminary University of Michigan Consumer Sentiment Index will be closely watched as recent signs of a weakening consumer have increased the concerns of slowing economic growth.

See following page for important disclosures

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